

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Paw Paw</u>	County Van Buren
Audit Date February 28, 2005	Opinion Date August 18, 2005	Date Accountant Report Submitted To State: November 29, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | | |
|---|--|---|
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes | <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	X
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	X

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address	City	State	ZIP
Accountant Signature 			

Village of Paw Paw, Michigan Van Buren County

Financial Report
with Additional Information
February 28, 2005

Village of Paw Paw, Michigan

Contents

Report Letter	1-2
General Purpose Financial Statements	
Combined Balance Sheet - All Fund Types and Account Group	3-4
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - All Governmental Fund Types	5
Combined Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types	6
Combined Statement of Revenue, Expenses and Changes in Retained Earnings - All Proprietary Fund Types	7
Combined Statement of Cash Flows - All Proprietary Fund Types	8
Notes to Financial Statements	9-20
Report Letter	21
Additional Information	
General Fund:	
Schedule of Revenue and Expenditures - Budget and Actual	22
Special Revenue Funds:	
Combining Balance Sheet	23
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	24
Major Street Fund:	
Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual	25
Local Street Fund:	
Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual	26

Village of Paw Paw, Michigan

Additional Information (Continued)

Building Inspection Fund:	
Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual	27
Revolving Loan Fund:	
Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual	28
Wine and Harvest Fund:	
Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual	29
Enterprise Funds:	
Combining Balance Sheet	30
Combining Statement of Revenue, Expenses and Changes in Retained Earnings	31
Combining Statement of Cash Flows	32
Schedules of Indebtedness	33-35



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Independent Auditors' Report

To the Village Council
Village of Paw Paw, Michigan
Van Buren County

We have audited the accompanying general purpose financial statements of the Village of Paw Paw as of February 28, 2005 and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the Village of Paw Paw's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying general purpose financial statements do not present government-wide financial statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component unit. Furthermore, the Village has not followed the formatting of separately reporting its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. The Village has continued to report information by fund type and account group; General Fixed Assets are not included in the report. The Village has reported its statement of cash flows on the indirect method, rather than directly reporting cash inflows and outflows from operating activities. Finally, the long-term debt footnote disclosure does not present the amount due within the next fiscal year; the future debt service requirement does not distinguish between principal and interest, nor does it present principal and interest in five-year increments. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements and full accrual information for the component unit statement. Further, accounting principles require separate fund-based reporting of its governmental funds (including major funds), proprietary funds (including major Enterprise Funds), and fiduciary funds. In addition, accounting principles require the general fixed asset data to include general infrastructure assets, and the accumulation of depreciation of government-wide financial statements for the Village's governmental activities, business-type activities, and discretely presented component unit (including the full accrual component unit data); the amounts of general infrastructure assets and general fixed assets costs and accumulated depreciation are not reasonably determinable. Accounting principles require the cash flow statements to directly report cash inflows and outflows from operating activities.

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To the Village Council
Village of Paw Paw, Michigan

In our opinion, the general purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village of Paw Paw as of February 28, 2005 or the changes in its financial position or its cash flows, where applicable, for the year then ended.

The accompanying general purpose financial statements also do not include a management's discussion and analysis (which would present an analysis of the financial performance for the year) or budgetary comparison schedules with original appropriations for the General Fund and each major Special Revenue Fund. The Governmental Accounting Standards Board has determined that these are necessary to supplement, although not required to be a part of, the financial statements.

Plante & Moran, PLLC

August 18, 2005

Village of Paw Paw, Michigan

	Governmental Fund Types	
	General	Special Revenue
Assets		
Cash and cash equivalents (Note 2)	\$ 817,066	\$ 569,983
Receivables:		
Taxes (Note 3)	42,007	16,802
Customers	17,358	325
Special assessments	-	-
Notes receivable (Note 1)	-	484,208
Due from other funds (Note 4)	255,771	6,855
Due from primary government	-	-
Due from component unit	-	688
Due from other governmental units	7,967	43,125
Inventory	-	-
Advances to other funds (Note 5)	182,150	-
Capital assets (Note 6)	-	-
Amount to be provided for retirement of general long-term debt	-	-
	<hr/>	<hr/>
Total assets	<u>\$ 1,322,319</u>	<u>\$ 1,121,986</u>

Combined Balance Sheet
All Fund Types and Account Group

Proprietary Fund Types		Account Group	Total Primary Government (Memorandum Only)		Component Unit
		General			Downtown
Enterprise	Internal Service	Long-Term Debt	February 28, 2005	February 29, 2004	Development Authority
\$ 1,716,612	\$ 124,965	\$ -	\$ 3,228,626	\$ 2,779,692	\$ 208,738
-	-	-	58,809	75,519	-
618,314	-	-	635,997	531,371	-
-	-	-	-	18,769	-
-	-	-	484,208	524,223	94,009
180,033	-	-	442,659	482,601	-
-	-	-	-	-	152,930
-	-	-	688	-	-
1,488	-	-	52,580	61,014	6,601
57,028	-	-	57,028	68,972	-
719,315	-	-	901,465	845,108	-
9,757,997	332,374	-	10,090,371	10,445,632	-
-	-	188,958	188,958	178,151	-
<u>\$ 13,050,787</u>	<u>\$ 457,339</u>	<u>\$ 188,958</u>	<u>\$ 16,141,389</u>	<u>\$ 16,011,052</u>	<u>\$ 462,278</u>

Village of Paw Paw, Michigan

	Governmental Fund Types	
	General	Special Revenue
Liabilities and Fund Equity		
Liabilities		
Accounts payable	\$ 24,715	\$ 4,117
Accrued and other liabilities	27,423	12,725
Customer deposits	-	-
Due to other governmental units	645	-
Due to other funds (Note 4)	6,706	149,476
Due to component unit	109,238	43,692
Due to primary government	-	-
Deferred revenue (Note 8)	-	484,209
Advances from other funds (Note 5)	-	-
Long-term debt (Note 7)	-	-
Total liabilities	168,727	694,219
Fund Equity		
Contributed capital	-	-
Retained earnings	-	-
Fund balance:		
Reserved for general liability claims (Note 9)	99,785	-
Unreserved	1,053,807	427,767
Total fund equity	1,153,592	427,767
Total liabilities and fund equity	<u><u>\$ 1,322,319</u></u>	<u><u>\$ 1,121,986</u></u>

See Notes to Financial Statements.

Combined Balance Sheet (Continued)
All Fund Types and Account Group

Proprietary Fund Types		Account Group	Total Primary Government (Memorandum Only)		Component Unit
Enterprise	Internal Service	General Long-Term Debt	February 28, 2005	February 29, 2004	Downtown Development Authority
\$ 175,971	\$ 3,839	\$ -	\$ 208,642	\$ 244,290	\$ 77
101,142	21,850	-	163,140	147,552	529
49,040	-	-	49,040	33,872	-
-	-	-	645	-	-
110,658	175,819	-	442,659	482,601	-
-	-	-	152,930	104,861	-
-	-	-	-	-	688
-	-	-	484,209	542,992	94,008
901,465	-	-	901,465	845,108	-
2,227,340	-	188,958	2,416,298	2,555,491	-
3,565,616	201,508	188,958	4,819,028	4,956,767	95,302
3,644,692	188,011	-	3,832,703	3,832,703	-
5,840,479	67,820	-	5,908,299	5,854,063	-
-	-	-	99,785	69,885	-
-	-	-	1,481,574	1,297,634	366,976
9,485,171	255,831	-	11,322,361	11,054,285	366,976
<u>\$ 13,050,787</u>	<u>\$ 457,339</u>	<u>\$ 188,958</u>	<u>\$ 16,141,389</u>	<u>\$ 16,011,052</u>	<u>\$ 462,278</u>

Village of Paw Paw, Michigan

	General	Special Revenue
Revenue		
Property taxes	\$ 810,552	\$ 292,183
Special assessments	-	10,629
State sources	353,194	251,643
Fines and forfeitures	18,954	-
Licenses and permits	23,241	16,735
Fundraising	-	48,596
Interest and rents	25,980	18,363
Contributions from other funds	545,321	-
Other	86,257	154,904
Total revenue	1,863,499	793,053
Expenditures		
General government	298,807	-
Public safety	687,341	22,169
Public works	464,881	641,582
Parks and recreation	189,186	-
Other	-	129,246
Total expenditures	1,640,215	792,997
Excess of Revenue Over Expenditures	223,284	56
Other Financing Sources (Uses)		
Operating transfers in	-	5,500
Operating transfers out	(15,000)	-
Total other financing sources (uses)	(15,000)	5,500
Excess of Revenue and Other Financing Sources Over Expenditures and Other Uses	208,284	5,556
Fund Balances - Beginning of year	945,308	422,211
Fund Balances - End of year	\$1,153,592	\$ 427,767

See Notes to Financial Statements.

**Combined Statement of Revenues, Expenditures and
Changes in Fund Balances – All Governmental Fund Types**

Year Ended		Component Unit
February 28, 2005	February 29, 2004	Downtown Development Authority
	(Memorandum Only)	
\$ 1,102,735	\$ 1,071,708	\$ 236,485
10,629	20,645	-
604,837	606,130	-
18,954	20,332	-
39,976	52,474	-
48,596	38,844	-
44,343	49,987	2,830
545,321	598,567	-
241,161	104,974	21,078
2,656,552	2,563,661	260,393
298,807	343,362	-
709,510	740,566	-
1,106,463	1,027,586	-
189,186	87,656	-
129,246	76,044	156,214
2,433,212	2,275,214	156,214
223,340	288,447	104,179
5,500	10,000	-
(15,000)	(35,000)	-
(9,500)	(25,000)	-
213,840	263,447	104,179
1,367,519	1,104,072	262,797
<u>\$1,581,359</u>	<u>\$1,367,519</u>	<u>\$ 366,976</u>

Village of Paw Paw, Michigan

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenue			
Property taxes	\$ 806,185	\$ 810,552	\$ 4,367
Special assessments	-	-	-
State sources	351,700	353,194	1,494
Fines and forfeitures	20,000	18,954	(1,046)
Licenses and permits	8,500	23,241	14,741
Fundraising	-	-	-
Interest and rents	21,785	25,980	4,195
Contributions from other funds	545,320	545,321	1
Other	74,735	86,257	11,522
Total revenue	1,828,225	1,863,499	35,274
Expenditures			
General government	351,185	298,807	52,378
Public safety	775,185	687,341	87,844
Public works	624,550	464,881	159,669
Parks and recreation	191,800	189,186	2,614
Other	-	-	-
Total expenditures	1,942,720	1,640,215	302,505
Excess (Deficiency) of Revenue Over Expenditures	(114,495)	223,284	337,779
Other Financing Sources (Uses)			
Operating transfers in	-	-	-
Operating transfers out	(15,000)	(15,000)	-
Total other financing sources (uses)	(15,000)	(15,000)	-
Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures and Other Uses	(129,495)	208,284	337,779
Fund Balances - Beginning of year	945,308	945,308	-
Fund Balances - End of year	<u><u>\$ 815,813</u></u>	<u><u>\$ 1,153,592</u></u>	<u><u>\$ 337,779</u></u>

See Notes to Financial Statements.

Combined Statement of Revenues, Expenditures and
Changes in Fund Balances – Budget and Actual
General and Special Revenue Fund Types
Year Ended February 28, 2005

Special Revenue Funds		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 326,775	\$ 292,183	\$ (34,592)
21,583	10,629	(10,954)
234,510	251,643	17,133
-	-	-
34,200	16,735	(17,465)
51,600	48,596	(3,004)
28,655	18,363	(10,292)
-	-	-
153,710	154,904	1,194
851,033	793,053	(57,980)
-	-	-
33,750	22,169	11,581
692,432	641,582	50,850
-	-	-
185,462	129,246	56,216
911,644	792,997	118,647
(60,611)	56	60,667
-	5,500	5,500
-	-	-
-	5,500	5,500
(60,611)	5,556	66,167
422,211	422,211	-
\$ 361,600	\$ 427,767	\$ 66,167

Village of Paw Paw, Michigan

Combined Statement of Revenues, Expenses and Changes in Retained Earnings – All Proprietary Fund Types

			Year Ended	
	Enterprise	Internal Service	February 28, 2005	February 29, 2004
				(Memorandum Only)
Operating Revenue				
Charges for services	\$ 3,870,317	\$ -	\$ 3,870,317	\$ 3,655,581
Rental	43,405	279,097	322,502	344,999
Miscellaneous and all other	102,488	2,594	105,082	33,345
Total operating revenue	4,016,210	281,691	4,297,901	4,033,925
Operating Expenses				
Energy purchased	1,958,878	-	1,958,878	1,917,008
Salaries, wages and benefits	575,356	125,475	700,831	537,599
Supplies	95,233	67,549	162,782	97,629
Contracted services	89,116	22,120	111,236	260,636
Payment in lieu of taxes	145,000	-	145,000	145,000
Utilities	61,031	-	61,031	21,769
Repairs and maintenance	16,416	34,045	50,461	71,784
Equipment rental	121,278	-	121,278	91,055
Depreciation	396,734	44,348	441,082	441,732
Administrative services transfer	346,371	33,950	380,321	424,191
Other	16,289	5,393	21,682	23,170
Total operating expenses	3,821,702	332,880	4,154,582	4,031,573
Operating Income (Loss)	194,508	(51,189)	143,319	2,352
Nonoperating Revenue (Expenses)				
Interest income	15,684	277	15,961	37,118
Interest expense	(114,544)	-	(114,544)	(124,441)
Operating transfer in	-	9,500	9,500	25,000
Total nonoperating revenue (expenses)	(98,860)	9,777	(89,083)	(62,323)
Net Income (Loss)	95,648	(41,412)	54,236	(59,971)
Retained Earnings - Beginning of year	5,744,831	109,232	5,854,063	5,914,034
Retained Earnings - End of year	<u>\$ 5,840,479</u>	<u>\$ 67,820</u>	<u>\$ 5,908,299</u>	<u>\$ 5,854,063</u>

Village of Paw Paw, Michigan

Combined Statement of Cash Flows All Proprietary Fund Types

			Year Ended	
	Enterprise	Internal Service	February 28, 2005	February 29, 2004
				(Memorandum Only)
Cash Flows from Operating Activities				
Operating income (loss)	\$ 194,508	\$ (51,189)	\$ 143,319	\$ 2,352
Adjustments to reconcile operating income to net cash from operating activities - Depreciation	396,734	44,348	441,082	441,732
Changes in assets and liabilities:				
Receivables	(104,912)	-	(104,912)	443
Inventory	11,944	-	11,944	(11,944)
Due from other funds	(131,666)	17,845	(113,821)	9,122
Accounts payable	(38,390)	(1,759)	(40,149)	30,335
Customer deposits	15,168	-	15,168	5,940
Accrued liabilities	27,042	303	27,345	(2,394)
Due to other funds	57,765	96,177	153,942	285,072
Net cash provided by operating activities	428,193	105,725	533,918	760,658
Cash Flows from Noncapital Financing Activities				
Repayment of long-term advance from other funds	(64,424)	-	(64,424)	(10,576)
Operating transfers from other funds	-	9,500	-	25,000
Net cash provided by (used in) noncapital financing activities	(64,424)	9,500	(64,424)	14,424
Cash Flows from Capital and Related Financing Activities				
Principal paid on long-term debt	(150,000)	-	(150,000)	(145,000)
Interest paid on long-term debt	(114,544)	-	(114,544)	(124,441)
Purchase of capital assets	(40,150)	(45,672)	(85,822)	(107,389)
Net cash used in capital and related financing activities	(304,694)	(45,672)	(350,366)	(376,830)
Cash Flows from Investing Activities				
Interest received on investments	15,684	277	15,961	37,118
Proceeds from the sale of capital assets	-	-	-	24,722
Net cash provided by investing activities	15,684	277	15,961	61,840
Net Increase in Cash and Cash Equivalents	74,759	69,830	135,089	460,092
Cash and Cash Equivalents - Beginning of year	1,641,853	55,135	1,696,988	1,236,896
Cash and Cash Equivalents - End of year	\$ 1,716,612	\$ 124,965	\$ 1,832,077	\$ 1,696,988

Village of Paw Paw, Michigan

Notes To Financial Statements
February 28, 2005

Note 1 - Summary of Significant Accounting Policies

The Village of Paw Paw, Michigan (the "Village") has not implemented GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, to conform with accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the other significant accounting policies:

Reporting Entity

The Village is governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the Village of Paw Paw, Michigan and its component unit. The individual component unit discussed below is included in the Village reporting entity because of the significance of its operational or financial relationships with the Village.

The following component unit is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the Village.

- a. The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation and to promote economic growth within the downtown district. The Authority's governing body, which consists of thirteen individuals, is selected by the Village council. In addition, the Authority's budget is subject to approval by the Village council.

Fund Accounting

The accounts of the Village are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows:

Governmental Funds

General Fund - The General Fund contains the records of the ordinary activities of the Village that are not accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Note 1 - Summary of Significant Accounting Policies (Continued)

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Internal Service Funds - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village, or to other governments, on a cost-reimbursement basis.

Basis of Accounting

The accrual basis of accounting is used by the proprietary funds. All governmental funds and component units utilize the modified-accrual basis of accounting. Modifications in such method from the accrual basis are as follows:

- a. Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned. Other revenue is recorded when received.

Properties are assessed as of December 31. The related property taxes are billed and become a lien on July 1 of the following year. These taxes are due on September 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2004 valuation of the Village totaled \$68 million, which taxes were levied at 11.3252 mills for the Village's operating purposes and 4.5299 mills for streets. Property tax revenue amounted to \$1,102,735 (including delinquent taxes) in the current year and was recorded in the General Fund, Major Street Fund, and Local Street Fund.

- b. Noncurrent receivables, such as special assessments and notes receivable, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year-end.
- c. Interest income on special assessments receivable is not accrued until its due date.
- d. Interest on bonded indebtedness and other long-term debt is not recorded as an expenditure until its due date.
- e. Payments for inventoriable types of supplies are recorded as expenditures at the time of purchase.

Note 1 - Summary of Significant Accounting Policies (Continued)

- f. Normally, expenditures are not divided between years by the recording of prepaid expenses.
- g. The noncurrent portion of accumulated sick and vacation pay liabilities is reflected in the General Long-term Debt Account Group.

Fixed Assets and Long-term Liabilities - The Village does not maintain a record of its general fixed assets.

All fixed assets in the Proprietary Funds are recorded at cost or, if donated, at their estimated fair value on the date donated. Fixed assets purchased by governmental funds are recorded as expenditures in those funds.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-term Debt Account Group, not in the governmental funds.

The General Long-term Debt Account Group is not a fund and does not involve the measurement of results of operations.

Fixed assets and long-term liabilities relating to the proprietary funds are accounted for in those funds. Depreciation on such fixed assets is charged as an expense against the operations of the proprietary funds on a straight-line basis.

Cash Equivalents - For purposes of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Notes Receivable - Notes receivable represent loans made by the Revolving Loan Fund and the Downtown Development Authority to corporate taxpayers. Based on an evaluation of the credentials of such loans, the Village has provided an allowance for possible collection losses. This net amount is also recorded as deferred revenue. These notes bear interest at rates ranging from 2.5 percent to 7 percent and are due through February 2010.

Inventories - Inventories in the Enterprise Funds are valued at cost, on a first-in, first-out basis, which approximates market value.

Village of Paw Paw, Michigan

Notes To Financial Statements
February 28, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Memorandum Only Totals - The total data presented is the aggregate of the fund types and account groups and is presented for analysis purposes only. No consolidating or other eliminations were made in arriving at the totals; therefore, they do not present consolidated information.

Other accounting policies are disclosed in other notes to financial statements.

Note 2 - Deposits

The Village's deposits are included on the balance sheet under the following classifications:

Cash and cash equivalents	<u>\$ 3,228,626</u>
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The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts, money market accounts, and certificates of deposit)	\$ 3,127,691
Cash on deposit with MMRMA (Note 9)	99,785
Petty cash or cash on hand	<u>1,150</u>
 Total	 <u>\$ 3,228,626</u>

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$3,118,988. Of that amount, approximately \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution it deposits Village funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Village of Paw Paw, Michigan

Notes To Financial Statements February 28, 2005

Note 2 - Deposits (Continued)

The deposits of the Village's component unit consist of bank deposits of \$208,738. The deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$200,453. The federal depository insurance coverage pertains to all deposits of the Village of Paw Paw, hence, the specific coverage pertaining to the component unit's deposits, if any, is not determinable.

Note 3 - Property Taxes Receivable

The delinquent real property taxes of the Village are purchased by the County of Van Buren. The county sells tax notes, the proceeds of which will be used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year.

Note 4 - Interfund Receivables

The following are the interfund receivables at February 28, 2005:

General Fund	
Special Revenue Funds	\$ 99,952
Internal Service Fund	155,819
Total General Fund	255,771
Special Revenue Funds	
General Fund	3,040
Special Revenue Funds	1,157
Enterprise Funds	658
Internal Service Fund	2,000
Total Special Revenue Funds	6,855
Enterprise Funds	
General Fund	3,666
Special Revenue Funds	48,367
Internal Service Fund	18,000
Enterprise Funds	110,000
Total Enterprise Funds	180,033
Total	\$ 442,659

Village of Paw Paw, Michigan

Notes To Financial Statements February 28, 2005

Note 5 – Advances To/From Other Funds

Advances between funds bear interest at a rate of three percent, payable monthly, with principal due on demand.

General Fund - Enterprise Funds	\$ 182,150
Enterprise Funds - Enterprise Funds	<u>719,315</u>
Total	<u>\$ 901,465</u>

Note 6 – Capital Assets

A summary of proprietary fund fixed assets at February 28, 2005 follows:

	Enterprise Funds	Internal Service Funds	Depreciable Life - Years
Land	\$ 2,721,327	\$ -	-
Buildings	1,209,028	195,669	20-50
Utility system:			
Water and sewage transmission lines	4,314,182	-	50
Treatment facilities	4,529,658	-	50
Electric Systems	2,621,932	-	20-30
Machinery and equipment	1,715,689	212,378	3-10
Vehicles	<u>-</u>	<u>783,175</u>	5-8
Total	17,111,816	1,191,222	
Less accumulated depreciation	<u>7,353,819</u>	<u>858,848</u>	
Net	<u>\$ 9,757,997</u>	<u>\$ 332,374</u>	

Village of Paw Paw, Michigan

Notes To Financial Statements February 28, 2005

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the Village:

	<u>Number of Issues</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Principal Outstanding</u>
Enterprise Funds:				
Van Buren County Refunding Bonds	1	3.80-4.55%	2013	\$ 910,000
Van Buren County Water Supply System Bonds	1	2.50%	2019	632,340
Van Buren County Sewage Disposal System	1	4.40-6.00%	2020	<u>685,000</u>
Total				2,227,340
General Long-Term Debt Account Group:				
Accumulated employee benefits				<u>188,958</u>
Total long-term debt				<u>\$ 2,416,298</u>

The accumulated employee benefits represent the estimated liability to be paid governmental fund type employees under the Village's sick and vacation pay policy, net of the portion that is estimated will be paid currently (which has been recorded as a liability in the applicable governmental fund). Under the Village's policy, employees earn sick and vacation time based on time of service with the Village.

Changes In Long-term Debt

The following is a summary of long-term debt transactions of the Village for the year ended February 28, 2005:

Balance - March 1, 2004	\$ 2,555,491
Increase in obligation for employee benefits	10,807
Debt retired	<u>(150,000)</u>
Balance - February 28, 2005	<u>\$ 2,416,298</u>

Village of Paw Paw, Michigan

Notes To Financial Statements
February 28, 2005

Note 7 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements to service all debt outstanding as of February 28, 2005, (excluding employee benefits, including both principal and interest) are as follows:

	Enterprise Funds
2006	\$ 262,446
2007	255,730
2008	254,111
2009	247,202
2010	240,259
Remaining years	<u>1,578,702</u>
Total	<u>\$ 2,838,450</u>

Interest

Total interest expense incurred for the Village for the year approximated \$114,500.

Note 8 – Deferred Revenue

Deferred revenue at February 28, 2005 consists of revolving loan receivable balances of \$484,209 as discussed in Note 1.

Note 9 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for workers' compensation claims and medical claims, and participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general liability and property and crime liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Village of Paw Paw, Michigan

Notes To Financial Statements
February 28, 2005

Note 9 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Village. The Village maintains a deposit with the risk pool of \$99,785 to cover such claims.

There are no estimated liabilities under this Plan at either February 28, 2005.

Note 10 - Budget Information

The annual budget is prepared by the Village management and adopted by the Village Council; subsequent amendments are approved by the Village Council. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at February 28, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted is a violation of Michigan law. A comparison of actual results of operations to the General Fund and Special Revenue funds budgets as adopted by the Village Council is included in the additional information.

There were no significant expenditure budget overruns.

The Building Inspection Fund has a deficit balance of approximately \$4,660 for the year ended February 28, 2005.

Village of Paw Paw, Michigan

Notes To Financial Statements February 28, 2005

Note 11 - Segment Information For Enterprise Funds

The Village maintains three Enterprise Funds that provide water, wastewater, and electric services. Segment information for the year ended February 28, 2005 was as follows:

	Electric Fund	Wastewater Fund	Water Fund	Total Enterprise Funds
Operating revenue	\$ 2,832,845	\$ 705,432	\$ 477,933	\$ 4,016,210
Operating income	17,319	96,406	80,783	194,508
Nonoperating revenue (expenses)	11,318	(55,882)	(54,296)	(98,860)
Net income	28,637	40,524	26,487	95,648
Land, buildings, and equipment:				
Additions	23,703	5,728	10,719	40,150
Depreciation expense	101,109	207,921	87,704	396,734
Net working capital (deficit)	1,543,076	491,726	(73,138)	1,961,664
Long-term debt	-	685,000	1,542,340	2,227,340
Total assets	3,881,736	5,713,376	3,455,675	13,050,787
Total equity	3,642,290	4,256,441	1,586,440	9,485,171

Note 12 - Pension Plan

Plan Description - The Village participates in the Municipal Employees Retirement System of Michigan, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and supplementary information for the system. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village's competitive bargaining units and requires a contribution from the employees of between 3 percent and 5 percent.

Village of Paw Paw, Michigan

Notes To Financial Statements February 28, 2005

Note 12 - Pension Plan (Continued)

Annual Pension Cost - For the year ended February 28, 2005 the Village's annual pension cost of \$47,304 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return, and (b) projected salary increases of 4.5 plus a percentage based on an age-related scale to reflect merit, longevity and promotional increases. Both (a) and (b) include an inflation component of 4.50 percent. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four year period.

Three year trend information:

	Fiscal Year Ended		
	February 28, 2003	February 29, 2004	February 28, 2005
Annual pension cost	\$ 6,278	\$ 27,900	\$ 47,304
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

	Actuarial Valuation as of December 31:		
	2002	2003	2004
Actuarial value of assets	\$ 4,561,025	\$ 4,853,357	\$ 5,056,737
Actuarial accrued liability	4,287,086	4,813,229	5,243,455
Unfunded AAL	(273,939)	(40,128)	186,718
Funded ratio	106	101	96
Covered payroll	1,135,160	1,099,492	1,218,113
UAAL as a percentage of covered payroll	-	-	-

Village of Paw Paw, Michigan

Notes To Financial Statements
February 28, 2005

Note 13 - Joint Venture

The Village is a member of the Paw Paw Fire Department which provides fire protection to the residents of the Village and four surrounding Townships. The participating municipalities no longer provide funding for its operations since the Township of Paw Paw receives a millage for the operation of the Fire Department. The Village is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Fire Department can be obtained from the administrative offices at 111 East Michigan Avenue, Paw Paw, Michigan.

Additional Information



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To the Village Council
Village of Paw Paw, Michigan
Van Buren County

We have audited the general purpose financial statements of the Village of Paw Paw, Michigan for the year ended February 28, 2005. Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The additional information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Village of Paw Paw, Michigan. This information has been subjected to the procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Plante & Moran, PLLC

August 18, 2005

Village of Paw Paw, Michigan

General Fund Schedule of Revenue and Expenditures – Budget & Actual Year Ended February 28, 2005

	2005 Budget	2005 Actual	Variance Favorable (Unfavorable)	2004 Actual
Revenue				
Property taxes	\$ 806,185	\$ 810,552	\$ 4,367	\$ 781,936
State sources	351,700	353,194	1,494	375,994
Fines and forfeitures	20,000	18,954	(1,046)	20,332
License and Permits	8,500	23,241	14,741	30,304
Interest and rents	21,785	25,980	4,195	24,440
Contributions from other funds	545,320	545,321	1	598,567
Principal repayments	61,235	67,233	5,998	24,678
Other	13,500	19,024	5,524	10,364
Total revenue	1,828,225	1,863,499	35,274	1,841,937
Expenditures				
General Government	351,185	298,807	52,378	343,362
Public Safety:				
Police	735,285	648,718	86,567	669,686
Fire	12,500	15,464	(2,964)	10,931
Planning commission	27,400	23,159	4,241	31,843
Total public safety	775,185	687,341	87,844	712,460
Public Works	624,550	464,881	159,669	527,104
Parks and Recreation	191,800	189,186	2,614	87,656
Total expenditures	1,942,720	1,640,215	302,505	1,670,582
Excess (Deficiency) of Revenues Over	(114,495)	223,284	337,779	171,355
Other Financing Sources - Operating transfers out	15,000	15,000	-	35,000
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	(129,495)	208,284	337,779	136,355
Fund Balance - Beginning of year	945,308	945,308	-	808,953
Fund Balance - End of year	<u>\$ 815,813</u>	<u>\$ 1,153,592</u>	<u>\$ 337,779</u>	<u>\$ 945,308</u>

Village of Paw Paw, Michigan

	Major Streets	Local Streets	Building Inspection
Assets			
Cash and cash equivalents	\$ 125,743	\$ 123,727	\$ 10,048
Property taxes receivable	6,553	10,249	-
Accounts receivable	-	-	325
Notes receivable	-	-	-
Special assessments receivable	-	-	-
Due from other funds	3,851	1,118	-
Due from component unit	-	-	-
Due from other governmental units	29,778	13,347	-
Total assets	<u>\$ 165,925</u>	<u>\$ 148,441</u>	<u>\$ 10,373</u>
Liabilities and Fund Balances			
Accounts payable	\$ 1,671	\$ 2,175	\$ 230
Accrued and other liabilities	9,991	1,936	263
Due to other funds	48,485	86,451	14,540
Due to component unit	17,040	26,652	-
Deferred revenue	-	-	-
Total liabilities	77,187	117,214	15,033
Fund balances (deficits)	88,738	31,227	(4,660)
Total liabilities and fund balances	<u>\$ 165,925</u>	<u>\$ 148,441</u>	<u>\$ 10,373</u>

Special Revenue Funds
Combining Balance Sheet

Revolving Loan	Wine & Harvest	February 28, 2005	February 29, 2004
\$ 308,179	\$ 2,286	\$ 569,983	\$ 449,690
-	-	16,802	21,576
-	-	325	-
484,208	-	484,208	524,223
-	-	-	18,769
1,346	540	6,855	34,154
688	-	688	-
-	-	43,125	60,822
<u>\$ 794,421</u>	<u>\$ 2,826</u>	<u>\$ 1,121,986</u>	<u>\$ 1,109,234</u>
\$ -	\$ 41	\$ 4,117	\$ 2,921
535	-	12,725	4,044
-	-	149,476	137,066
-	-	43,692	-
484,209	-	484,209	542,992
484,744	41	694,219	687,023
309,677	2,785	427,767	422,211
<u>\$ 794,421</u>	<u>\$ 2,826</u>	<u>\$ 1,121,986</u>	<u>\$ 1,109,234</u>

Village of Paw Paw, Michigan

	Major Streets	Local Streets	Building Inspection
Revenue			
Property taxes	\$ 117,786	\$ 174,397	\$ -
Special assessments	10,629	-	-
State sources	176,144	75,499	-
Licenses and permits	-	-	16,735
Fundraising and activities	-	-	-
Interest	1,392	1,301	20
Other	-	-	-
Total revenue	305,951	251,197	16,755
Expenditures			
Public safety	-	-	22,169
Highways and streets	321,686	319,896	-
Other	-	-	-
Total expenditures	321,686	319,896	22,169
Excess (Deficiency) of Revenue Over Expenditures	(15,735)	(68,699)	(5,414)
Other Financing Sources - Operating transfers in	-	-	5,500
Excess (Deficiency) of Revenue and Other Financing Sources Over Expenditures	(15,735)	(68,699)	86
Fund Balances - Beginning of year	104,473	99,926	(4,746)
Fund Balances (Deficits) - End of year	<u><u>\$ 88,738</u></u>	<u><u>\$ 31,227</u></u>	<u><u>\$ (4,660)</u></u>

Special Revenue Funds

Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances

Revolving Loan	Wine & Harvest	For the Year Ended	
		February 28, 2005	February 29, 2004
\$ -	\$ -	\$ 292,183	\$ 289,772
-	-	10,629	20,645
-	-	251,643	230,136
-	-	16,735	22,170
-	48,596	48,596	38,844
15,528	122	18,363	25,547
<u>154,904</u>	<u>-</u>	<u>154,904</u>	<u>94,610</u>
170,432	48,718	793,053	721,724
-	-	22,169	28,106
-	-	641,582	500,482
<u>79,593</u>	<u>49,653</u>	<u>129,246</u>	<u>76,044</u>
<u>79,593</u>	<u>49,653</u>	<u>792,997</u>	<u>604,632</u>
90,839	(935)	56	117,092
<u>-</u>	<u>-</u>	<u>5,500</u>	<u>10,000</u>
90,839	(935)	5,556	127,092
<u>218,838</u>	<u>3,720</u>	<u>422,211</u>	<u>295,119</u>
<u>\$ 309,677</u>	<u>\$ 2,785</u>	<u>\$ 427,767</u>	<u>\$ 422,211</u>

Village of Paw Paw, Michigan

Major Street Fund Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget & Actual Year Ended February 28, 2005

	2005	2005	Variance	2004
	Budget	Actual	Favorable (Unfavorable)	Actual
Revenue				
Property taxes	\$ 117,300	\$ 117,786	\$ 486	\$ 116,266
Special assessments	21,583	10,629	(10,954)	20,645
State sources	168,650	176,144	7,494	164,892
Interest	2,315	1,392	(923)	622
Other	1,125	-	(1,125)	-
Total revenue	310,973	305,951	(5,022)	302,425
Expenditures				
Administration	135,830	151,002	(15,172)	92,511
Routine maintenance	181,508	143,391	38,117	89,346
Traffic control	8,950	4,295	4,655	6,008
Winter maintenance	30,985	22,998	7,987	13,750
Total expenditures	357,273	321,686	35,587	201,615
Excess (Deficiency) of Revenues Over Expenditures	(46,300)	(15,735)	30,565	100,810
Other Financing Sources - Operating transfers in	-	-	-	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	(46,300)	(15,735)	30,565	100,810
Fund Balance - Beginning of year	104,473	104,473	-	3,663
Fund Balance - End of year	<u>\$ 58,173</u>	<u>\$ 88,738</u>	<u>\$ 30,565</u>	<u>\$ 104,473</u>

Village of Paw Paw, Michigan

Local Street Fund Schedule of Revenue, Expenditures, and Changes in Fund Balance - Budget & Actual Year Ended February 28, 2005

	2005 Budget	2005 Actual	Variance Favorable (Unfavorable)	2004 Actual
Revenue				
Property taxes	\$ 209,475	\$ 174,397	\$ (35,078)	\$ 173,506
State sources	65,860	75,499	9,639	65,244
Interest	650	1,301	651	774
Other	200	-	(200)	-
Total revenue	276,185	251,197	(24,988)	239,524
Expenditures				
Administration	80,009	79,842	167	87,334
Routine maintenance	237,550	230,496	7,054	197,109
Traffic control	5,600	537	5,063	2,406
Winter maintenance	12,000	9,021	2,979	12,018
Total expenditures	335,159	319,896	15,263	298,867
Excess (Deficiency) of Revenues Over Expenditures	(58,974)	(68,699)	(9,725)	(59,343)
Other Financing Sources - Operating transfer in	-	-	-	10,000
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	(58,974)	(68,699)	(9,725)	(49,343)
Fund Balance - Beginning of year	99,926	99,926	-	149,269
Fund Balance - End of year	<u>\$ 40,952</u>	<u>\$ 31,227</u>	<u>\$ (9,725)</u>	<u>\$ 99,926</u>

Village of Paw Paw, Michigan

Building Inspection Fund Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget & Actual Year Ended February 28, 2005

	2005 Budget	2005 Actual	Variance Favorable (Unfavorable)	2004 Actual
Revenue				
Licenses and permits	\$ 34,200	\$ 16,735	\$ (17,465)	\$ 22,170
Interest and rents	50	20	(30)	38
Total revenue	34,250	16,755	(17,495)	22,208
Expenditures	33,750	22,169	11,581	28,106
Excess (Deficiency) of Revenues Over Expenditures	500	(5,414)	(5,914)	(5,898)
Other Financing Sources - Operating transfer in	-	5,500	5,500	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures	500	86	(414)	(5,898)
Fund Balance - Beginning of year	(4,746)	(4,746)	-	1,152
Fund Balance (Deficit) - End of year	<u>\$ (4,246)</u>	<u>\$ (4,660)</u>	<u>\$ (414)</u>	<u>\$ (4,746)</u>

Village of Paw Paw, Michigan

Revolving Loan Fund Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget & Actual Year Ended February 28, 2005

	2005 Budget	2005 Actual	Variance Favorable (Unfavorable)	2004 Actual
Revenue				
Principal payments	\$ 152,385	\$ 154,904	\$ 2,519	\$ 94,610
Interest	<u>25,640</u>	<u>15,528</u>	<u>(10,112)</u>	<u>23,845</u>
Total revenue	178,025	170,432	(7,593)	118,455
Expenditures				
Salaries and services	31,237	27,593	3,644	29,162
Loans granted	<u>100,000</u>	<u>52,000</u>	<u>48,000</u>	<u>-</u>
Total expenditures	<u>131,237</u>	<u>79,593</u>	<u>51,644</u>	<u>29,162</u>
Excess of Revenues Over Expenditures	46,788	90,839	44,051	89,293
Fund Balance - Beginning of year	<u>218,838</u>	<u>218,838</u>	<u>-</u>	<u>129,545</u>
Fund Balance - End of year	<u>\$ 265,626</u>	<u>\$ 309,677</u>	<u>\$ 44,051</u>	<u>\$ 218,838</u>

Village of Paw Paw, Michigan

Wine and Harvest Fund Schedule of Revenue, Expenditures, and Changes in Fund Balance – Budget & Actual Year Ended February 28, 2005

	2005 Budget	2005 Actual	Variance Favorable (Unfavorable)	2004 Actual
Revenue				
Fundraising	\$ 51,600	\$ 48,596	\$ (3,004)	\$ 38,844
Interest and rents	-	122	122	268
Total revenue	51,600	48,718	(2,882)	39,112
Expenditures	54,225	49,653	4,572	46,882
Deficiency of Revenue Over Expenditures	(2,625)	(935)	1,690	(7,770)
Fund Balance - Beginning of year	3,720	3,720	-	11,490
Fund Balance - End of year	<u>\$ 1,095</u>	<u>\$ 2,785</u>	<u>\$ 1,690</u>	<u>\$ 3,720</u>

Village of Paw Paw, Michigan

	Electric	Wastewater
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,141,449	\$ 463,635
Accounts receivable	415,777	102,711
Due from other funds	172,324	3,000
Inventory	52,972	-
Total current assets	1,782,522	569,346
Long-term Assets		
Advances to other funds	719,315	-
Capital assets	1,379,899	5,144,030
Total assets	<u><u>\$ 3,881,736</u></u>	<u><u>\$ 5,713,376</u></u>
Liabilities and Fund Equity		
Current Liabilities		
Current portion of long-term debt	\$ -	\$ 25,000
Accounts payable	156,445	15,445
Accrued and other liabilities	42,512	32,029
Customer deposits	39,831	5,146
Due to other funds	658	-
Total current liabilities	239,446	77,620
Long-term Liabilities		
Advances from other funds	-	719,315
Long-term debt - Net of current portion	-	660,000
Total long-term liabilities	-	1,379,315
Fund Equity		
Contributed capital	60,858	2,980,380
Retained earnings	3,581,432	1,276,061
Total fund equity	3,642,290	4,256,441
Total liabilities and fund equity	<u><u>\$ 3,881,736</u></u>	<u><u>\$ 5,713,376</u></u>

Enterprise Funds
Combining Balance Sheet

Water	February 28, 2005	February 29, 2004
\$ 111,528	\$ 1,716,612	\$ 1,641,853
101,314	619,802	514,890
4,709	180,033	48,367
4,056	57,028	68,972
221,607	2,573,475	2,274,082
-	719,315	780,684
3,234,068	9,757,997	10,114,581
<u>\$ 3,455,675</u>	<u>\$ 13,050,787</u>	<u>\$ 13,169,347</u>
\$ 150,000	\$ 175,000	\$ 150,000
4,081	175,971	214,361
26,601	101,142	74,100
4,063	49,040	33,872
110,000	110,658	235,043
294,745	611,811	707,376
182,150	901,465	845,108
1,392,340	2,052,340	2,227,340
1,574,490	2,953,805	3,072,448
603,454	3,644,692	3,644,692
982,986	5,840,479	5,744,831
1,586,440	9,485,171	9,389,523
<u>\$ 3,455,675</u>	<u>\$ 13,050,787</u>	<u>\$ 13,169,347</u>

Village of Paw Paw, Michigan

	Electric	Wastewater
Operating Revenue		
Charges for services	\$ 2,773,035	\$ 676,599
Rental	-	1,405
Other	59,810	27,428
Total operating revenue	2,832,845	705,432
Operating Expenses		
Energy purchased	1,958,878	-
Salaries, wages, and benefits	306,552	133,013
Supplies	46,522	21,023
Contracted services	16,749	66,244
Payment in lieu of taxes	145,000	-
Utilities	-	49,047
Repair and maintenance	3,398	10,458
Equipment rental	57,827	25,187
Depreciation	101,109	207,921
Administrative services transfer	169,790	95,081
Other	9,701	1,052
Total operating expenses	2,815,526	609,026
Operating Income	17,319	96,406
Nonoperating Revenue (Expenses)		
Interest income	11,318	3,742
Interest expense	-	(59,624)
Total nonoperating revenue (expenses)	11,318	(55,882)
Net Income	28,637	40,524
Retained Earnings - Beginning	3,552,795	1,235,537
Retained Earnings - Ending	<u>\$ 3,581,432</u>	<u>\$ 1,276,061</u>

Enterprise Funds
Combining Statement of Revenue, Expenses
and Changes in Retained Earnings

Water	Year Ended	
	February 28, 2005	February 29, 2004
\$ 420,683	\$ 3,870,317	\$ 3,655,581
42,000	43,405	54,101
15,250	102,488	48,968
477,933	4,016,210	3,758,650
-	1,958,878	1,917,008
135,791	575,356	423,007
27,688	95,233	66,513
6,123	89,116	245,400
-	145,000	145,000
11,984	61,031	21,769
2,560	16,416	37,428
38,264	121,278	91,055
87,704	396,734	394,192
81,500	346,371	389,718
5,536	16,289	14,426
397,150	3,821,702	3,745,516
80,783	194,508	(10,345)
624	15,684	13,010
(54,920)	(114,544)	(124,441)
(54,296)	(98,860)	(111,431)
26,487	95,648	(98,297)
956,499	5,744,831	5,843,128
\$ 982,986	\$ 5,840,479	\$ 5,744,831

Village of Paw Paw, Michigan

	Electric	Wastewater
Cash Flows from Operating Activities		
Operating income (loss)	\$ 17,319	\$ 96,406
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	101,109	207,921
Changes in assets and liabilities:		
Receivables	(71,013)	(13,866)
Inventory	10,570	-
Due from other funds	(123,957)	(3,000)
Accounts payable	(26,236)	(6,718)
Customer deposits	11,842	1,643
Accrued liabilities	9,232	11,551
Due to other funds	(15,161)	(30,651)
Net cash provided by (used in) operating activities	(86,295)	263,286
Cash Flows from Noncapital Financing Activities -		
Repayments of long-term advance to/from other funds	61,369	(61,369)
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	-	(25,000)
Interest paid on long-term debt	-	(59,624)
Purchase of capital assets	(23,703)	(5,728)
Net cash used in capital and related financing activities	(23,703)	(90,352)
Cash Flows from Investing Activities		
Interest received on investments	11,318	3,742
Proceeds from the sale of capital assets	-	-
Net cash provided by investing activities	11,318	3,742
Net Increase (Decrease) in Cash and Cash Equivalents	(37,311)	115,307
Cash and Cash Equivalents - Beginning of year	1,178,760	348,328
Cash and Cash Equivalents - End of year	\$ 1,141,449	\$ 463,635

Enterprise Funds
Combining Statement of Cash Flows

Water	Year Ended	
	February 28, 2005	February 29, 2004
\$ 80,783	\$ 194,508	\$ (10,345)
87,704	396,734	394,192
(20,033)	(104,912)	443
1,374	11,944	(11,944)
(4,709)	(131,666)	26,967
(5,436)	(38,390)	33,621
1,683	15,168	5,940
6,259	27,042	(4,774)
<u>103,577</u>	<u>57,765</u>	<u>205,430</u>
251,202	428,193	639,530
(64,424)	(64,424)	(10,576)
(125,000)	(150,000)	(145,000)
(54,920)	(114,544)	(124,441)
<u>(10,719)</u>	<u>(40,150)</u>	<u>(14,433)</u>
(190,639)	(304,694)	(283,874)
624	15,684	36,489
<u>-</u>	<u>-</u>	<u>24,722</u>
<u>624</u>	<u>15,684</u>	<u>61,211</u>
(3,237)	74,759	406,291
<u>114,765</u>	<u>1,641,853</u>	<u>1,235,562</u>
<u>\$ 111,528</u>	<u>\$ 1,716,612</u>	<u>\$ 1,641,853</u>

Village of Paw Paw, Michigan

Water Fund Schedule of Indebtedness February 28, 2005

Water Bond - Refunding Bonds

Dated February 13, 2001 in the Amount of \$ 1,195,000

Less:

Amounts paid during prior years	195,000
Payment due and paid in current year	<u>90,000</u>

Balance Outstanding - February 28, 2005 **\$ 910,000**

Bond payments as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 38,455	\$ 115,000	\$ 153,455
2007	33,913	110,000	143,913
2008	29,513	110,000	139,513
2009	25,058	105,000	130,058
2010	20,700	105,000	125,700
2011	16,238	125,000	141,238
2012	10,800	120,000	130,800
2013	<u>5,460</u>	<u>120,000</u>	<u>125,460</u>
Total	<u>\$ 180,137</u>	<u>\$ 910,000</u>	<u>\$ 1,090,137</u>

The above payments are due annually on November 1 with interest payable semi-annually on May 1 and November 1, at rates ranging from 3.8 percent to 4.55 percent.

Village of Paw Paw, Michigan

Water Fund Schedule of Indebtedness February 28, 2005

Water Bond - Water Supply System No. 2

Dated September 28, 1998 in the Amount of \$ 830,000

Less:

Amounts paid during prior years	162,660
Payment due and paid in current year	<u>35,000</u>

Balance Outstanding - February 28, 2005 \$ 632,340

Bond payments as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 15,808	\$ 35,000	\$ 50,808
2007	14,934	40,000	54,934
2008	13,933	40,000	53,933
2009	12,934	40,000	52,934
2010	11,933	40,000	51,933
2011	10,934	40,000	50,934
2012	9,933	45,000	54,933
2013	8,809	50,000	58,809
2014	7,556	50,000	57,556
2015	6,309	50,000	56,309
2016	5,058	50,000	55,058
2017	3,809	50,000	53,809
2018	2,558	50,000	52,558
2019	<u>1,309</u>	<u>52,340</u>	<u>53,649</u>
Total	<u><u>\$ 99,218</u></u>	<u><u>\$ 632,340</u></u>	<u><u>\$ 758,157</u></u>

The above payments are due annually on October 1 with interest payable semi-annually on April 1 and October 1 at 2.5 percent.

Village of Paw Paw, Michigan

Sewer Fund Schedule of Indebtedness February 28, 2005

Sewer Bond - Sewage Disposal System

Dated January 1, 2001 in the Amount of \$ 750,000

Less:

Amounts paid during prior years	40,000
Payment due and paid in current year	<u>25,000</u>

Balance Outstanding - February 28, 2005 \$ 685,000

Bond payments as follows:

<u>Year</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2006	\$ 33,183	\$ 25,000	\$ 58,183
2007	31,883	25,000	56,883
2008	30,665	30,000	60,665
2009	29,210	35,000	64,210
2010	27,626	35,000	62,626
2011	25,910	40,000	65,910
2012	24,050	40,000	64,050
2013	22,030	45,000	67,030
2014	19,848	45,000	64,848
2015	17,496	50,000	67,496
2016	14,857	55,000	69,857
2017	11,938	60,000	71,938
2018	8,863	60,000	68,863
2019	5,628	65,000	70,628
2020	<u>1,969</u>	<u>75,000</u>	<u>76,969</u>
Total	<u><u>\$ 305,156</u></u>	<u><u>\$ 685,000</u></u>	<u><u>\$ 990,156</u></u>

The above payments are due annually on April 1 with interest payable semi-annually on April 1 and October 1, at rates ranging from 4.4 percent to 6.0 percent.



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To the Village Council
Village of Paw Paw
Van Buren County, Michigan

Dear Council Members:

In planning and performing our audit of the financial statements of The Village of Paw Paw for the year ended February 28, 2005, we considered the entity's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Company's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

Bank Account Reconciliations

Currently, the Finance Administrator is responsible for preparing all monthly reconciliations. Bank reconciliations from March 2004 to February 2005 were not completed and ready to audit until August 31, 2005. Due to not completing the reconciliations monthly, there were several transfers made during the year between bank accounts that were made on the bank statements but not on the general ledger. These unrecorded transfers netted to approximately \$213,000 during the year. Also, due to the several reconciling items, there is approximately \$21,000 of cash that is unable to be reconciled, leaving the general ledger balances overstated compared to the bank statements.

Also, these reconciliations are not being reviewed by a supervisor. We recommend that the Village Manager assume this responsibility on a monthly basis. We recommend that the monthly reconciliations be printed, initialed and dated by preparer and reviewer, and then filed with the bank statement together with support for any reconciling items. These additional procedures will ensure timely and accurate completion of reconciliations, strengthen internal controls, and ensure information is readily available if needed.

The control over cash has been minimized due to not preparing bank reconciliations. This environment could allow the misappropriation of cash, which is unlikely be detected a reasonable period of time.

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Personnel Policies

The Village has written personnel policies for employee benefits such as sick and vacation time. During our testing of accrued employee sick and vacation time, we noted that the Village did not adhere to its written policies related to the use of time off (i.e. time must be used in 4 hour increments). We suggest that the Village either adhere to its current written policies or update the policies in a manner that is consistent with current practices.

Electronic Transfers

There was a new bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of "automated clearing house (ACH) transactions." Beginning immediately, a local unit's governing body must adopt a policy on ACH arrangement that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows: describe the goods or services purchased, the cost, date of payment, and the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

It was noted during the current year audit that there is an ACH policy and there have been some changes to the policy. The changes made to the ACH process have not been written into a formal policy that has been approved by the board.

We would encourage you to incorporate these changes into a formal, written policy (sample attached).

Disallowed Expenditures

Elected officials, as well as management, should become familiar with what are potentially unlawful expenditures. The State of Michigan website has provided a reference for local government officials, employees, and governmental auditors of selected references that address some of the questionable expenditures of local government. Some of the unlawful expenditures listed on the website are as follows: contributions to non-profit organizations, donations to a private ambulance or EMS service not under contract with the governmental unit, donations to community organizations, office refreshments and picnics, flowers to the sick or departed, presents to officials and employees, retirement recognition events, etc. A more inclusive listing can be found at the State's website @ http://www.michigan.gov/treasury/1,1607,7-121-1751_2194-7603--,00.html. The Village should closely monitor for these types of items to ensure the proper use of Village funds.

Special Assessments

During the prior fiscal year, a special assessment was completed. A portion of the funds remaining at the completion of the project needs to be refunded to the applicable parties. There are many complex issues relative to this process and care should be taken to ensure that the calculations and procedures are performed properly. We understand that the finance administrator is initiating this process of which we will be available to provide assistance, if deemed necessary.

Fund Deficit

The Building Inspection Fund has a deficit balance of \$4,660 for the year ended February 28, 2005. We understand the Village has closed this fund into the General Fund during the year ended February 28, 2006.

GASB 34

The Village has chosen not to implement GASB Statement 34 as required by the Governmental Accounting Standards Board. We remind the Village Council of the following consequences of non-implementation:

- The State of Michigan currently will allow the exclusion of the Management's Discussion and Analysis and the government wide statements, which results in an adverse audit opinion, as presented in the current year audit report. There has been discussion that the State may change their position on accepting non-GASB 34 compliant financial statements.
- The Village's ability to issue bonds and its current bond rating could be affected.
- The impact on future grant funding is not known at this time.

Although the Village has chosen not to implement this standard at this time, we do recommend that the Village familiarize itself with the standard and ensure that the required information will be available should the Village later decide to adopt the accounting standard.

Deposit and Investment Risk Disclosures

The Governmental Accounting Standards Board has released Statement Number 40, Deposit and Investment Risk Disclosures. This pronouncement is effective for the Village's February 28, 2006 year-end financial statement and amends the Deposit and Investment Risk disclosures previously prescribed by GASB 3. Under GASB 40, the Village must disclose applicable investment risks due to custodial credit risk (originally required by GASB 3) as well as new disclosures for concentration credit risk, interest rate fluctuation risk, and foreign currency risk. In addition, the Village must disclose its investment policy addressing each applicable risk. We encourage you to review your investment policies and update as necessary, to ensure the policies adequately address the risks associated with each type of investment made by the Village.

To the Village Council
Village of Paw Paw

Other Matters

During the audit we noted a few other matters that could help improve the internal control structure and operations at the Village:

- Manual excel journal entries are not reviewed or approved by someone independent of the person making the entries.
- Manual excel journal entries are not written using a pre-printed sequence, which would ensure all entries written were made on the general ledger
- Deposits are not made on the same day as received and are left on-site overnight in the vault. The Village might consider making a night deposit drop-off for deposit collected late in the day.
- There are many old, outstanding checks that remain on the general ledger that should be investigated and resolved.

We would like to thank the Village personnel for the courtesy and assistance extended to us during the audit. We would be happy to answer any questions or concerns you have regarding the annual financial report and the above comments and recommendations at your convenience.

August 18, 2005

